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Estonia's maritime sector stakeholders and their reaction patterns

Eva Branten^{a*}, Alari Purju^b

^a Tallinn University of Technology, Estonia

^b Tallinn University of Technology, Estonia

Abstract

The paper examines Estonia's maritime sector issues from the point of view of stakeholders and their strategic choices regarding several critical issues. Business activities of maritime sector are dependent on public services and regulations like safety and security related services and regulations, environmental conditions related issues, the sulphur emission regulation which will be introduced from 2015, giving the most recent example. One impact of this dependence is that a big number of different stakeholders are involved and would like to see their values and preferences followed in governance process. The paper provides a structured overview of these stakeholders and about their position in governance issues.

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1. Introduction

The object of the paper is position of different stakeholders of maritime sector. The Estonian maritime business sector has three large components: infrastructure (ports), operating services (shipping and cargo treatment) and shipbuilding and repair. Ports provide first of all infrastructure for other activities. Shipping companies operate ships and their networks depend on their customers. They could deal with passengers or cargo or both. The cargo and service companies' activities are based on networks because their main business is to serve owners of traded

*Corresponding author. Tel.: NA

E-mail address: evabranten@gmail.com

products by transporting these products from one geographical location to another with providing all necessary services for it. The shipbuilding and repair companies produce ships and provide different kind of repair services to the ship owners. Especially ports and passenger ships provide services related to retail and wholesale trade, catering and entertainment, therefore they are closely connected with different type of tourism. The ships also need different services as repair, bunkering, pilot service. So this interrelated maritime sector altogether creates quite a big amount of Estonia's GDP (Purju, Dedegkajeva and Soosaar, 2003, 285-293; Portsmouth, Hunt, Terk, Nõmmela and Hartikainen, 2012, 3-4).

The maritime sector activities are using the Baltic Sea which is a natural resource and environment for countries on the coast of it and also part of wider ecosystem. The maritime sector companies operating in the area have to take into account the special requirements set by the natural conditions of the Baltic Sea. The sea has high emotional value for the inhabitants of these countries. There is a well-known historical heritage related to development of nations in the area. That makes developments related to use of sea very sensitive and creates a good basis for public interest. The important role played by the maritime sector in Estonia's economy and accompanied controversial externalities of it support there have been calls for institutional arrangements that take the public interest into account (Blue Growth, 2012, HELCOM, 2007, Schinas and Stefanakos, 2012, 81-99, Suris-Regueiro, Garza-Gil and Varela-Lafuente, 2013, 111-124).

The legal framework for vessel traffic has been tightening, the sulphur emission regulation which will be introduced from 2015, giving the most recent example. The shipping companies have in principle three ways for adjustment to this new regulation: 1) purification of emission with scrubbers, 2) using better and more expensive fuel, 3) to construct LNG using engines. Current fleets need to be reviewed and renewed, which means getting rid of old tonnage and making sure that the rest meets the new demands regarding environment and fuel efficiency. These requirements introduced by the sulphur directive have been an activator of stakeholders.

The aim of the paper is to examine Estonia's maritime sector strategic choices. The problem is related to a big number of different stakeholders who are involved and would like to see their preferences followed in governance process. At the same time, their reaction patterns depend on their position as a stakeholder. The paper applies a typology of stakeholders and tries to produce suggestions for governance of maritime sector. The paper is based on results of the EU Interreg project "Smart Competitiveness for the Central Baltic Region".

2. Method: Qualitative Typology of Stakeholders and its Application

The stakeholders' impact and its dynamics are derived from semi-structured interview with key stakeholders. Reaction to requirements of the sulphur directive has been considered as an activator of stakeholders.

In very general terms stakeholder is any group or individual who can affect or is affected by the achievement of the organization's objectives (Freeman, 1984, p.46). Mitchell et al. (1997) have developed a classification based on three attributes: legitimacy, power and urgency (Mitchell, Agle and Wood, 1997). The legitimacy is attributed to stakeholders that have a legal, moral or presumed claim on the company. Power belongs to stakeholders who are in a position to influence the company's decisions. The urgency is related to a possibility or to a need to demand immediate attention from managers. To be a stakeholder means that there is either a legitimate claim, there is an urgent problem or crises which should be solved and there is more or less power to influence the company's decisions. The stakeholders could have one, two or three of these attributes describing the possibilities of involvement in company's decision making.

The seven types of stakeholders examined are the following: three possessing only one attribute, three possessing two attributes and one possessing all three attributes. According to Mitchell et al. (1997) concept, the latent stakeholders are entities possessing only one of the attributes – legitimacy, power or urgency. Actors with legitimate claims but without power or demand that require immediate actions become stakeholders at the discretion of the company. Groups with power but without legitimate claim and urgent demands are stakeholders to the extent they are willing or able to use their power (dormant stakeholders). They are stakeholders in reserve and could be activated by the actual use of power or by a threat to use it. Groups with urgent claims but lacking power and legitimacy are irksome but not dangerous (demanding stakeholders).

The expectant stakeholders are those who possess two of the three attributes and imply more active relationship with the company. Groups and organizations with legitimacy and power like government agencies have to be taken

into account and for that reason they are dominant stakeholders. The stakeholders which are legitimate and with urgency claim, but without power to enforce it could use media attention and get attraction of powerful stakeholders. Building alliances and appealing to the values of managers are their relevant strategies. They are dependent stakeholders. There is also a possibility that the stakeholders have power and possess urgency, but lack legitimacy. This group of stakeholders will support their interests through the use of force. They are dangerous for companies' stakeholders.

The definitive stakeholders are those who possess power, legitimacy and urgency. Definitive stakeholders are those groups or individuals whose demands managers of companies should take into account. These groups include shareholders, employees and customers, but also government agencies if the latter are in a position to use their power to solve certain critical problems.

The position of different groups of stakeholders is dynamic. Situation, changes in political system and also regulations could change nature of the claim of one or another group of stakeholders. The stakeholders themselves are active in improving their position. The stakeholders' structure is influenced by area of activities. One example is analysis of Norway's fisheries stakeholder typology (Mikalsen, Jentoft, 2001).

3. Results: The Position of the Maritime Sector Stakeholders

The typology of stakeholders have been used to examine the position of Estonia's maritime sector stakeholders.

The definitive stakeholders in Estonia's maritime sector are government agencies for the reason that they have power and legitimacy to act and also urgency is related to the need to introduce respective legislation which is foreseen by international commitments. Especially for the Ministry of Economic Affairs and Communications the impact of possible decline in turnover and revenues due to the impact of the new regulation in the sector will be a major concern. The shipping companies are definitive stakeholders in relationships with other partners in the maritime sector because their decisions on shipping lines are framing crucially the flows of traded goods. The ports and cargo handling companies depend more on shipping lines' decisions than vice versa. Especially important are the routes of ocean lines in framing the global cargo flows. The ports visited by these shipping lines are destinations of reframing transport flows into smaller lines and cargo handling companies adjust wishes of their clients about ports of arrival of goods to availability of options provided by shipping lines.

Ports, cargo handling and shipbuilding companies are all in different ways dependent on the new requirements. Ports have to develop new infrastructure to serve waste treatment. Cargo handling companies have to adjust their services to new conditions taking into account also additional costs. Shipbuilding companies should develop new products taking into account new technical conditions. All these industries have legitimacy of claims because the new regulations have a quite substantial impact on their business activities. They all are legitimate stakeholders with urgency claim, but without power to enforce it. Building of alliances and appealing to the values of decision makers are their relevant strategies and for that reason they are dependent stakeholders. At the same time they have certain limited tools to have influence on certain decisions. State-owned ports are important sources of tax revenue and they have some power in economic decisions which have impact on other companies (sale or rent of capacity for terminals). Cargo handling and shipbuilding companies create also tax revenues, provide employment and demand for services of other industries. Local governments have impact on certain concrete decisions like sale or rent of additional land for ports. At the same time, they are dependent on tax revenues (income tax connected to inhabitants of local government and land tax connected to its territory) created by these business activities. Associations of Maritime Sector related activities are urgency and legitimacy of actions because they represent companies which are very directly influenced by the new regulation. They have access to government agencies but their direct power is limited and they can act as a lobby group intermediating information between the government agencies and companies. Local communities and environmental groups have urgency and legitimacy for actions but their impact is even lower and they could make their voice heard through local governments or state agencies.

In Estonia's maritime sector trade unions, citizens and academic institutions are actors with legitimate claims but without power or demand that require immediate actions and they are for those reasons stakeholders at the discretion. Trade unions have only medium level power because in Estonia coverage with trade unions is low, only around 10% of the employees belong to trade unions (Viilmann and Soosaar, 2012), nevertheless the Independent Trade Union for Estonian Seamen is relatively active and has some influence. Citizens have the claim to environment conditions, including conditions of sea, but their direct impact on solutions is limited and their

demands could be considered first of all if they were presented by intermediating bodies. The environment related problems are urgent for local communities living in areas close to the sea coast or/and industrial constructions of maritime industry. Academic institutions have legitimacy and obligation to examine environmental conditions and develop technology for industries, but their impact depends on access to political decision making and urgency for particular businesses. In Estonia, the academic lobby is not very strong in political decision making and also in industry. In the latter case the reason is that even Estonian companies use first of all international expertise in product development. Estonia's small academic community could specialize into certain niche areas in product development but now it is not clear for producers in which specialized areas these strengths lie.

Media belong to the subtype of stakeholders with relative power (even government agencies should be influenced, especially in sensitive areas like environmental conditions of sea). The faith of maritime industry is not an extremely urgent topic for media and as there could be only medium to long term processes dealing with critical issues and providing solutions, the media are not patient enough to go into details. That makes from media a dormant stakeholder, that is, to the extent they are willing or able to use their power. Also banks belong to the same group but their claims are even less urgent and very project based. They are stakeholders in reserve and could be activated by the actual use of power or by a threat to use it. Groups with urgent claims but lacking power and legitimacy are irksome but not dangerous (demanding stakeholders). Tourism industry is dependent on certain services provided by the maritime sector but for them also substituting products are available. The future generations naturally have legitimacy for reliable environmental conditions but especially in the countries with relatively pragmatic short and medium term approach to business activities and the related use of natural resources the urgency and power are limited in taking their interests into account.

4. Discussion and Conclusions

The analysis of structure of stakeholders and their position in particular country supports design of cooperation strategies which take into account also economic and business features of these countries. This typology based approach makes it possible to produce realistic suggestions for particular country how to develop further its maritime sector and which could be ways to create national and regional clusters. The analysis of roles of stakeholders suggests that there should be increasing cooperation between the maritime associations and the political actors. It is very important to organize targeted problem solving networking events with participation of representatives of maritime associations, government agencies, research institutions and companies.

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